

SCHLESWIG COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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Schleswig Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Todd Schultz	President	2007
Rhonda Nemitz	Board Member	2008
Alan Weiss	Board Member	2006
Michele Kinnersley	Board Member	2006
Andrea Gurney	Board Member	2008

Board of Education (After September 2006 Election)

Todd Schultz	President	2007
Rhonda Nemitz	Board Member	2008
Alan Weiss	Board Member	2009
Andrea Gurney	Board Member	2008
Doris Nahnsen	Board Member	2009

School Officials

Jack Johnson	Superintendent	2007
Sherri Jones	District Secretary	2007
Vanessa Zimmer	District Treasurer	2007
Mundt, Franck & Schumacher	Attorney	2007

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Schleswig Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Schleswig Community School District, Schleswig, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Schleswig Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 18, 2008 on our consideration of Schleswig Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Schleswig Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 18, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Schleswig Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,265,926 in fiscal 2006 to \$2,435,891 in fiscal 2007, while General Fund expenditures increased from \$2,385,691 in fiscal 2006 to \$2,486,692 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from \$423,892 in fiscal 2006 to a balance of \$364,174 in fiscal 2007, a 14.09% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in local and state source revenues in fiscal 2007. The increase in expenditures was due primarily to an increase in the instruction functional area.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Schleswig Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Schleswig Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Schleswig Community School District acts solely as an agent or custodial for the benefit of those outside of District government.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

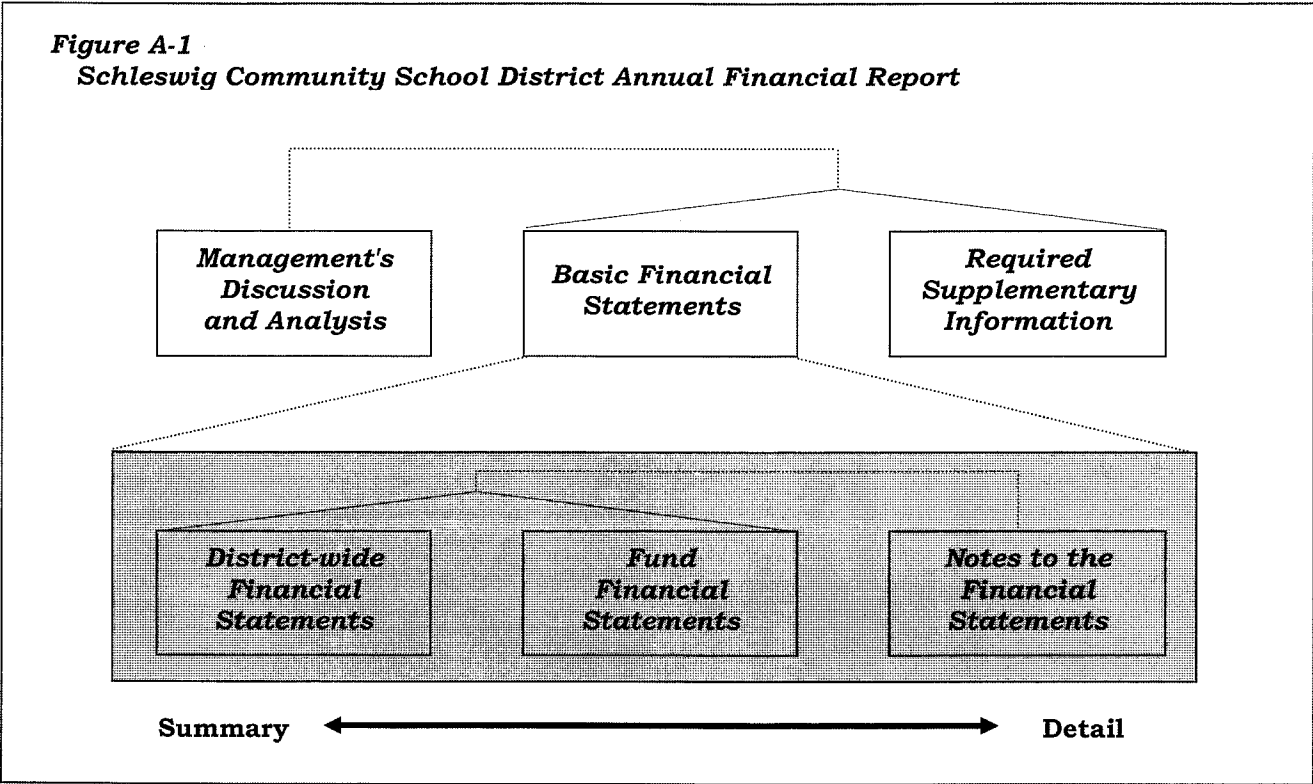


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds*: The District is a trustee, or fiduciary, for assets that belong to others. These funds include the Agency Fund.

Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 2,733,988	1,774,910	4,453	6,189	2,738,441	1,781,099	53.75%
Capital assets	483,197	422,356	26,823	29,910	510,020	452,266	12.77%
Total assets	3,217,185	2,197,266	31,276	36,099	3,248,461	2,233,365	45.45%
Other liabilities	1,972,878	968,625	303	0	1,973,181	968,625	103.71%
Total liabilities	1,972,878	968,625	303	0	1,973,181	968,625	103.71%
Net assets:							
Invested in capital assets, net of related debt	483,197	422,356	26,823	29,910	510,020	452,266	12.77%
Restricted	372,443	373,933	0	0	372,443	373,933	-0.40%
Unrestricted	388,667	432,352	4,150	6,189	392,817	438,541	-10.43%
Total net assets	\$ 1,244,307	1,228,641	30,973	36,099	1,275,280	1,264,740	0.83%

The District's combined net assets increased by 0.83%, or \$10,540, under the prior year. The largest portion of the District's net assets is the unrestricted net assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$1,490, or 0.4% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$45,724, or 10.43%. This decrease in unrestricted net assets was a result of the District's decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4 Changes of Net Assets								
	Governmental Activities		Business-type Activities		Total School District		Total Change	
	2007	2006	2007	2006	2007	2006	2006-07	
Revenues and Transfers:								
Program revenues:								
Charges for services	\$ 201,225	188,619	50,685	33,442	251,910	222,061	13.44%	
Operating grants and contributions and restricted interest	302,638	296,847	44,618	53,780	347,256	350,627	-0.96%	
General revenues:								
Property tax	841,314	763,608	0	0	841,314	763,608	10.18%	
Local option sales and services tax	196,331	143,616	0	0	196,331	143,616	36.71%	
Unrestricted state grants	1,180,168	1,035,692	0	0	1,180,168	1,035,692	13.95%	
Other general revenues	32,352	25,756	306	15,459	32,658	41,215	-20.76%	
Transfers	(10,417)	(10,501)	10,417	10,501	0	0	0.00%	
Total revenues and transfers	2,743,611	2,443,637	106,026	113,182	2,849,637	2,556,819	11.45%	
Program expenses:								
Governmental activities:								
Instructional	1,764,786	1,623,820	0	0	1,764,786	1,623,820	8.68%	
Support services	768,209	820,928	266	0	768,475	820,928	-6.39%	
Non-instructional programs	0	0	110,886	98,980	110,886	98,980	12.03%	
Other expenses	194,950	135,355	0	0	194,950	135,355	44.03%	
Total expenses	2,727,945	2,580,103	111,152	98,980	2,839,097	2,679,083	5.97%	
Changes in net assets	15,666	(136,466)	(5,126)	14,202	10,540	(122,264)	1260.00%	
Beginning net assets	1,228,641	1,365,107	36,099	21,897	1,264,740	1,387,004	-8.81%	
Ending net assets	\$ 1,244,307	1,228,641	30,973	36,099	1,275,280	1,264,740	0.83%	

Property tax and unrestricted state grants account for 73.68% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 89.23% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. The most significant change in revenues was due to the increase in local option sales tax and state grant monies. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will be ever fully realized with current law and funding structure as set by the legislature, and the mid-year reduction of funding on the part of the state.

The most significant fluctuation in expenditure levels was caused by an increase in facilities acquisitions expenditures.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs.

Governmental Activities

Revenues for governmental activities were \$2,743,611 and expenses were \$2,727,945. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 1,764,786	1,623,820	8.68%	1,359,034	1,228,143	10.66%
Support services	768,209	820,928	-6.42%	764,000	816,577	-6.44%
Other expenses	194,950	135,355	44.03%	101,048	49,917	102.43%
Totals	<u>\$ 2,727,945</u>	<u>2,580,103</u>	<u>5.73%</u>	<u>2,224,082</u>	<u>2,094,637</u>	<u>6.18%</u>

- The cost financed by users of the District's programs was \$201,225.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$302,638.
- The net cost of governmental activities was financed with \$841,314 in property tax, \$196,331 in local option sales and services tax, \$1,180,168 in unrestricted state grants and \$32,352 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$106,026 and expenses were \$111,152. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Schleswig Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$702,571, below last year's ending fund balances of \$768,402. However, the primary reason for the decrease in combined fund balances in fiscal 2007 is due to the decrease in the General Fund balance.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors:

- The increase in revenues was not enough to offset the increase in expenditures over the prior fiscal year causing the General Fund balance to decrease.
- The Local Option Sales and Services Tax (LOSST) Fund balance decreased from \$156,483 in fiscal 2006 to \$148,533 in fiscal 2007. This decrease was partially due to increased support services expenditures as compared to the previous year.

Proprietary Fund Highlights

The Proprietary Funds net assets decreased from \$36,099 at June 30, 2006 to \$30,973 at June 30, 2007, representing a decrease of 14.2%. The reason for the decrease in net assets was due to the School Nutrition Fund receiving less in local sources of revenue.

BUDGETARY HIGHLIGHTS

The District's revenues were \$66,635 less than budgeted revenues, a variance of 2.3%. The most significant variance resulted from the District receiving less in federal sources than originally anticipated.

Total disbursements were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget disbursements at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual disbursements for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$510,020, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 11.32% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$62,659.

The original cost of the District's capital assets was \$1,513,111. Governmental funds account for \$1,442,160 with the remainder of \$70,951 in the Proprietary funds.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$192,762 at June 30, 2007, compared to \$146,831 reported at June 30, 2006. This increase was due mainly in part to the playground parking lot and lighting system in the cafeteria at the school being completed during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 117,443	117,443	0	0	117,443	117,443	0.00%
Land improvements	51,580	54,445	0	0	51,580	54,445	-5.55%
Buildings	192,762	146,831	0	0	192,762	146,831	23.83%
Machinery and equipment	121,412	103,637	26,823	29,910	148,235	133,547	9.91%
Total	\$ 483,197	422,356	26,823	29,910	510,020	452,266	11.32%

Long-Term Debt

At June 30, 2007, the District did not have any long-term debt.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Continued budget concerns at the state level will affect future projections.
- The apparent increased costs of gasoline/diesel fuel will also impact the District's efforts to control expenditures.
- The Denison and Schleswig Community School Districts have an agreement that will expire June 30, 2011, in which Schleswig Community School District will pay 81% of the regular program district cost, plus 100% of the SILO dollars for the students that will be attending Denison under the sharing agreement.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sherri Jones, Business Manager, Schleswig Community School District, 714 Date Street, Schleswig, Iowa, 51461.

BASIC FINANCIAL STATEMENTS

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP (Note 4)	\$ 715,668	0	715,668
Other	907,559	147	907,706
Receivables:			
Property tax:			
Delinquent	6,181	0	6,181
Succeeding year	905,038	0	905,038
Income surtax	58,539	0	58,539
Accounts	52,934	0	52,934
Accrued interest - ISCAP (Note 4)	3,996	0	3,996
Due from other governments	84,073	0	84,073
Inventories	0	4,306	4,306
Capital assets, net of accumulated depreciation (Note 5)	483,197	26,823	510,020
TOTAL ASSETS	3,217,185	31,276	3,248,461
LIABILITIES			
Accounts payable	188,209	0	188,209
Salaries and benefits payable	154,118	0	154,118
ISCAP warrants payable (Note 4)	717,000	0	717,000
ISCAP accrued interest payable (Note 4)	4,053	0	4,053
ISCAP unamortized premium	4,460	0	4,460
Deferred revenue:			
Succeeding year property tax	905,038	0	905,038
Unearned revenue	0	303	303
TOTAL LIABILITIES	1,972,878	303	1,973,181
NET ASSETS			
Invested in capital assets, net of related debt	483,197	26,823	510,020
Restricted for:			
Talented and gifted	34,046	0	34,046
Salary improvement program	2,275	0	2,275
Professional development	6	0	6
Market factor	1,881	0	1,881
Capital projects	148,533	0	148,533
Management levy	90,113	0	90,113
Physical plant and equipment levy	88,729	0	88,729
Other special revenue purposes	11,022	0	11,022
Unrestricted	384,505	4,150	388,655
TOTAL NET ASSETS	\$ 1,244,307	30,973	1,275,280

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs					Total
Governmental activities:					
Instruction:					
Regular instruction	\$ 1,276,644	153,079	204,527	(919,038)	0
Special instruction	384,633	48,146	0	(336,487)	0
Other instruction	103,509	0	0	(103,509)	0
	<u>1,764,786</u>	<u>201,225</u>	<u>204,527</u>	<u>(1,359,034)</u>	<u>0</u>
Support services:					
Student services	53,657	0	0	(53,657)	0
Instructional staff services	63,854	0	0	(63,854)	0
Administration services	352,064	0	0	(352,064)	0
Operation and maintenance of plant services	122,752	0	0	(122,752)	0
Transportation services	175,882	0	4,209	(171,673)	0
	<u>768,209</u>	<u>0</u>	<u>4,209</u>	<u>(764,000)</u>	<u>0</u>
Other expenditures:					
Facilities acquisitions	85,922	0	0	(85,922)	0
AEA flowthrough	93,902	0	93,902	0	0
Depreciation(unallocated)*	15,126	0	0	(15,126)	0
	<u>194,950</u>	<u>0</u>	<u>93,902</u>	<u>(101,048)</u>	<u>0</u>
Total governmental activities	2,727,945	201,225	302,638	(2,224,082)	0
Business-Type activities:					
Support services:					
Operation and maintenance of plant services	266	0	0	0	(266)
Non-instructional programs:					
Nutrition services	110,886	50,685	44,618	0	(15,583)
Total business-type activities	<u>111,152</u>	<u>50,685</u>	<u>44,618</u>	<u>0</u>	<u>(15,849)</u>
Total	<u>\$ 2,839,097</u>	<u>251,910</u>	<u>347,256</u>	<u>(2,224,082)</u>	<u>(15,849)</u>
General Revenues and Transfers:					
Local tax for:					
General purposes			\$ 817,541	0	817,541
Capital outlay			23,773	0	23,773
Local option sales and services tax			196,331	0	196,331
Unrestricted state grants			1,180,168	0	1,180,168
Unrestricted investment earnings			32,352	306	32,658
Transfers			(10,417)	10,417	0
Total general revenues and transfers			<u>2,239,748</u>	<u>10,723</u>	<u>2,250,471</u>
Changes in net assets			15,666	(5,126)	10,540
Net assets beginning of year			<u>1,228,641</u>	<u>36,099</u>	<u>1,264,740</u>
Net assets end of year			<u>\$ 1,244,307</u>	<u>30,973</u>	<u>1,275,280</u>

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments				
ISCAP (Note 4)	\$ 715,668		0	715,668
Other	582,001	136,203	189,355	907,559
Receivables:				
Property tax:				
Delinquent	5,672	0	509	6,181
Succeeding year	814,070	0	90,968	905,038
Income surtax	58,539	0	0	58,539
Accounts	0	52,934	0	52,934
Accrued interest - ISCAP (Note 4)	3,996	0	0	3,996
Due from other governments	84,073	0	0	84,073
TOTAL ASSETS	\$ 2,264,019	189,137	280,832	2,733,988
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 147,605	40,604	0	188,209
Salaries and benefits payable	154,118	0	0	154,118
ISCAP warrants payable (Note 4)	717,000		0	717,000
ISCAP accrued interest payable (Note 4)	4,053		0	4,053
ISCAP unamortized premium	4,460		0	4,460
Deferred revenue:				
Succeeding year property tax	814,070	0	90,968	905,038
Income surtax	58,539	0	0	58,539
Total liabilities	1,899,845	40,604	90,968	2,031,417
Fund balances:				
Reserved for:				
Talented and gifted	34,046	0	0	34,046
Salary improvement program	2,275	0	0	2,275
Professional development	6	0	0	6
Market factor	1,881	0	0	1,881
Unreserved, designated:				
Designated for cashflow	300,000	0	0	300,000
Unreserved, undesignated:				
General	25,966	0	0	25,966
Management	0	0	90,113	90,113
Capital Projects	0	148,533	0	148,533
Physical plant and equipment levy	0	0	88,729	88,729
Other special revenue purposes	0	0	11,022	11,022
	364,174	148,533	189,864	702,571
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,264,019	189,137	280,832	2,733,988

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total fund balances of governmental funds (page 15) \$ 702,571

*Amounts reported for governmental activities in the
statement of net assets are different because:*

Capital assets used in governmental activities are not
financial resources and, therefore, are not report as
assets in in the governmental funds. 483,197

Accounts receivable income surtax, are not yet available
to finance expenditures of the current period. 58,539

Net assets of governmental activites (page 13) \$ 1,244,307

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 756,691	196,331	63,967	1,016,989
Tuition	131,973	0	0	131,973
Other	64,421	0	37,183	101,604
State sources	1,394,467	0	0	1,394,467
Federal sources	88,339	0	0	88,339
Total revenues	2,435,891	196,331	101,150	2,733,372
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,265,392	0	11,252	1,276,644
Special instruction	375,520	0	0	375,520
Other instruction	72,305	0	31,204	103,509
	1,713,217	0	42,456	1,755,673
Support services:				
Student services	53,657	0	0	53,657
Instructional staff services	30,955	22,457	10,442	63,854
Administration services	352,064	0	0	352,064
Operation and maintenance of plant services	157,965	0	14,703	172,668
Transportation services	84,932	62,735	6,687	154,354
	679,573	85,192	31,832	796,597
Other expenditures:				
Facilities acquisitions	0	119,089	25,025	144,114
AEA flowthrough	93,902	0	0	93,902
	93,902	119,089	25,025	238,016
Total expenditures	2,486,692	204,281	99,313	2,790,286
Excess(deficiency) of revenues over(under) expenditures	(50,801)	(7,950)	1,837	(56,914)
Other financing sources(uses):				
Sale of equipment	1,500	0	0	1,500
Transfers out	(10,417)	0	0	(10,417)
Total other financing uses	(8,917)	0	0	(8,917)
Net change in fund balances	(59,718)	(7,950)	1,837	(65,831)
Fund balance beginning of year	423,892	156,483	188,027	768,402
Fund balance end of year	\$ 364,174	148,533	189,864	702,571

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ (65,831)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 120,927	
Depreciation expense	(59,572)	
Loss on disposal of capital assets	(514)	60,841
	<hr/>	

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.	<hr/>	20,656
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Changes in net assets of governmental activities (page 14)	<hr/> <hr/>	\$ 15,666
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SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 147
Inventories	4,306
Capital assets, net of accumulated depreciation(Note 5)	26,823
TOTAL ASSETS	<u>31,276</u>
LIABILITIES	
Unearned revenue	303
TOTAL LIABILITIES	<u>303</u>
NET ASSETS	
Invested in capital assets, net of related debt	26,823
Unrestricted	4,150
TOTAL NET ASSETS	<u>\$ 30,973</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	<u>\$ 50,685</u>
OPERATING EXPENSES:	
Support services:	
Operation and maintenance of plant services:	
Supplies	<u>266</u>
Non-instructional programs:	
Salaries	43,814
Benefits	5,845
Services	2,460
Supplies	55,680
Depreciation	<u>3,087</u>
	<u>110,886</u>
TOTAL OPERATING EXPENSES	<u>111,152</u>
OPERATING LOSS	<u>(60,467)</u>
NON-OPERATING REVENUES:	
State sources	1,273
Federal sources	43,291
Interest on investments	360
TOTAL NON-OPERATING REVENUES	<u>44,924</u>
Net loss before other financing sources	<u>(15,543)</u>
OTHER FINANCING SOURCES	
Transfer in	<u>10,417</u>
Change in net assets	(5,126)
Net assets beginning of year	<u>36,099</u>
Net assets end of year	<u><u>\$ 30,973</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 37,635
Cash received from miscellaneous	13,353
Cash payments to employees for services	(49,659)
Cash payments to suppliers for goods or services	(54,159)
Net cash used in operating activities	<u>(52,830)</u>
Cash flows from non-capital financing activities:	
State grants received	1,273
Federal grants received	39,706
Net cash provided by non-capital financing activities	<u>40,979</u>
Cash flows from investing and other activities:	
Transfer from General Fund	10,417
Interest on investments	360
Net cash provided by investing and other activities	<u>10,777</u>
Net decrease in cash and cash equivalents	(1,074)
Cash and cash equivalents at beginning of year	<u>1,221</u>
Cash and cash equivalents at end of year	<u>\$ 147</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (60,467)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	4,256
Depreciation	3,087
Increase in inventories	(9)
Increase in unearned revenue	303
Net cash used in operating activities	<u>\$ (52,830)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 147</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$4,256.

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2007

Exhibit J

	<u>Agency</u>
Assets	
Cash and pooled investments	\$ 2,770
Total assets	<u>\$ 2,770</u>
Liabilities	
Due to other funds	\$ 2,770
Total liabilities	<u>\$ 2,770</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Schleswig Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Schleswig, Iowa, and the predominate agricultural territory in Crawford and Ida Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Schleswig Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Schleswig Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Crawford and Ida Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds is the School Nutrition Fund. The Nutrition fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations

and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and

delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,400
Buildings	1,400
Land improvements	1,400
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,400

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Designated For Special Purposes by the Board - In the governmental fund financial statements, the District's board designated \$300,000 of the General Fund's unreserved balance for special purposes by the Board.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007 expenditures did not exceed budgeted amounts.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The certificates of deposit are classified as Category 1, which means the investments are insured and held by the District in the District's name. Certificates of deposit are stated at fair value.

At June 30, 2007, the District had investments in certificates of Deposit maturing over one year as follows:

Certificates of deposit

<u>Fair Value</u>
<u>\$ 109,237</u>

(3) **Transfers**

The detail of transfers for the year ended June 30, 2007, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Nutrition	General	<u>\$ 10,417</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) **Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07B	1/26/07	1/25/08	\$ 204,477	3,843	205,000	3,922
2007-08A	6/28/07	6/27/08	511,191	153	512,000	131
Total			<u>\$ 715,668</u>	<u>3,996</u>	<u>717,000</u>	<u>4,053</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07B	\$ 0	100,000	0	100,000

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07B	4.250%	5.315%
2007-08A	4.500%	5.455%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 117,443	0	0	117,443
Total capital assets not being depreciated	117,443	0	0	117,443
Capital assets being depreciated:				
Land improvements	57,311	0	0	57,311
Buildings and improvements	693,272	58,192	0	751,464
Machinery and equipment	557,502	62,735	104,295	515,942
Total capital assets being depreciated	1,308,085	120,927	104,295	1,324,717
Less accumulated depreciation for:				
Land improvements	2,866	2,865	0	5,731
Buildings and improvements	546,441	12,261	0	558,702
Machinery and equipment	453,865	44,446	103,781	394,530
Total accumulated depreciation	1,003,172	59,572	103,781	958,963
Total capital assets being depreciated, net	304,913	61,355	514	365,754
Governmental activities capital assets, net	\$ 422,356	61,355	514	483,197
Business-type activities:				
Machinery and equipment	\$ 70,951	0	0	70,951
Less accumulated depreciation	41,041	3,087	0	44,128
Business-type activities capital assets, net	\$ 29,910	(3,087)	0	26,823

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Special	\$ 9,113
Support services:	
Operation and maintenance of plant	12,819
Transportation	22,514
	<u>44,446</u>
Unallocated depreciation	<u>15,126</u>
Total governmental activities depreciation expense	<u>\$ 59,572</u>
Business-type activities:	
Food service operations	\$ 3,087
Total business-type activities depreciation expense	<u>\$ 3,087</u>

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$67,982, \$67,922, and \$69,029, respectively, equal to the required contributions for each year.

(7) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: long term disability and health.

District contributions to ISEBA for the year ended June 30, 2007 were \$133,069.

Schleswig Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$93,902 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SCHLESWIG COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental	Proprietary		Budgeted Amounts		Final to
	Fund Types	Fund Type	Total	Original	Final	Actual
	Actual	Actual	Actual			Variance
Revenues:						
Local sources	\$ 1,250,566	51,045	1,301,611	1,319,696	1,319,696	(18,085)
State sources	1,394,467	1,273	1,395,740	1,410,920	1,410,920	(15,180)
Federal sources	88,339	43,291	131,630	165,000	165,000	(33,370)
Total revenues	<u>2,733,372</u>	<u>95,609</u>	<u>2,828,981</u>	<u>2,895,616</u>	<u>2,895,616</u>	<u>(66,635)</u>
Expenditures:						
Instruction	1,755,673	0	1,755,673	3,171,050	3,171,050	1,415,377
Support services	796,597	266	796,863	1,038,786	1,038,786	241,923
Non-instructional programs	0	110,886	110,886	120,897	120,897	10,011
Other expenditures	238,016	0	238,016	240,404	240,404	2,388
Total expenditures	<u>2,790,286</u>	<u>111,152</u>	<u>2,901,438</u>	<u>4,571,137</u>	<u>4,571,137</u>	<u>1,669,699</u>
Deficiency of revenues under expenditures	(56,914)	(15,543)	(72,457)	(1,675,521)	(1,675,521)	1,603,064
Other financing sources, net	(8,917)	10,417	1,500	0	0	1,500
Deficiency of revenues and other financing sources under expenditures and other financing uses	(65,831)	(5,126)	(70,957)	(1,675,521)	(1,675,521)	1,604,564
Balance beginning of year	<u>768,402</u>	<u>36,099</u>	<u>804,501</u>	<u>793,446</u>	<u>793,446</u>	<u>11,055</u>
Balance end of year	<u>\$ 702,571</u>	<u>30,973</u>	<u>733,544</u>	<u>(882,075)</u>	<u>(882,075)</u>	<u>1,615,619</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

SCHLESWIG COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2007

	Special Revenue Funds			
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue
ASSETS				
Cash and pooled investments	\$ 89,794	11,022	88,539	189,355
Receivables:				
Property tax:				
Current year delinquent	319	0	190	509
Succeeding year	30,000	0	60,968	90,968
TOTAL ASSETS	\$ 120,113	11,022	149,697	280,832
LIABILITIES AND FUND BALANCES				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	\$ 30,000	0	60,968	90,968
Fund balances:				
Unreserved:				
Undesignated	90,113	11,022	88,729	189,864
Total fund balances	90,113	11,022	88,729	189,864
TOTAL LIABILITIES AND FUND BALANCES	\$ 120,113	11,022	149,697	280,832

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds			
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue
REVENUES:				
Local sources:				
Local tax	\$ 40,194	0	23,773	63,967
Other	3,389	31,236	2,558	37,183
TOTAL REVENUES	43,583	31,236	26,331	101,150
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	11,252	0	0	11,252
Other instruction	0	31,204	0	31,204
Support services:				
Instructional staff	0	0	10,442	10,442
Operation and maintenance of plant services	14,703	0	0	14,703
Student transportation	4,994	1,693	0	6,687
Other expenditures:				
Facilities acquisitions	0	0	25,025	25,025
TOTAL EXPENDITURES	30,949	32,897	35,467	99,313
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	12,634	(1,661)	(9,136)	1,837
FUND BALANCE BEGINNING OF YEAR	77,479	12,683	97,865	188,027
FUND BALANCE END OF YEAR	\$ 90,113	11,022	88,729	189,864

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Activity Fund Balance	\$ 23	0	0	23
Vocal Music	(9,226)	0	2,673	(11,899)
Instrumental Music	344	0	296	48
M.S. Athletics	(26,160)	0	4,298	(30,458)
M.S. Student Council	55	127	35	147
School Annual	2,034	20	69	1,985
Music Boosters	788	0	0	788
Athletic Boosters	22,568	4,329	2,637	24,260
Student Projects	15,564	26,363	22,889	19,038
Old High School Clubs	4,162	0	0	4,162
Activity Fund Savings	2,531	397	0	2,928
Total	\$ 12,683	31,236	32,897	11,022

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
YEAR ENDED JUNE 30, 2007

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 2,770	0	0	2,770
Liabilities				
Due to other groups	\$ 2,770	0	0	2,770

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

Modified Accrual Basis				
Years Ended June 30,				
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 1,016,989	958,018	929,644	1,055,373
Tuition	131,973	147,746	198,439	139,342
Other	101,604	66,629	73,116	73,970
State sources	1,394,467	1,237,317	1,131,112	1,014,565
Federal sources	88,339	95,222	99,873	97,528
Total	<u>\$ 2,733,372</u>	<u>2,504,932</u>	<u>2,432,184</u>	<u>2,380,778</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 1,276,644	1,231,717	1,274,540	1,178,714
Special instruction	375,520	354,991	347,318	280,686
Other instruction	103,509	35,509	119,888	52,749
Support services:				
Student services	53,657	47,901	55,241	48,217
Instructional staff services	53,854	46,261	60,903	52,280
Administration services	352,064	385,258	300,450	322,592
Operation and maintenance of plant services	172,668	205,128	166,354	171,970
Transportation services	154,354	105,974	95,190	92,954
Central services	0	0	0	20,757
Other expenditures:				
Facilities acquisitions	144,114	86,792	87,756	88,997
AEA flow-through	93,902	85,438	84,987	85,214
Total	<u>\$ 2,780,286</u>	<u>2,584,969</u>	<u>2,592,627</u>	<u>2,395,130</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Schleswig Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Schleswig Community School District of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 18, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Schleswig Community School District internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Schleswig Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Schleswig Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Schleswig Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Schleswig Community School District's financial statements that is more than inconsequential will not be prevented or detected by Schleswig Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Schleswig Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

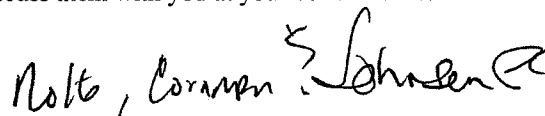
As part of obtaining reasonable assurance about whether Schleswig Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Schleswig Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Schleswig Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Schleswig Community School District and other parties to whom Schleswig Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Schleswig Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.

March 18, 2008

SCHLESWIG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement controls where deemed possible.

Conclusion - Response accepted.

I-B-07 Student Activity Fund - We noted during our audit that the Student Activity Fund included an interest account titled Activity Fund Savings. The Activity Fund also has an account titled Activity Fund Balance.

Recommendation - Interest in the Activity Fund Savings account should be allocated to the various accounts within the Student Activity Fund. The District should identify to which Student Activity Accounts the money in the Activity Fund Balance account belongs and make the necessary transfers.

Response - We will continue to review our procedures and implement additional controls where deemed possible.

Conclusion - Response accepted.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-07 Certified Budget - District expenditures for the year ended June 30, 2007, did not exceed the amount budgeted.
- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-07 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Tim Helkenn, Live-in of Aide Owns HT Mowing/Construction	Services	\$2,375

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the District's aide does not appear to represent a conflict of interest.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-J-07 Deficit Balances - Two individual accounts within the Student Activity Fund had deficit balances of \$42,357 at June 30, 2007.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should investigate alternatives to eliminate these deficit balances.

Response - Account balances will be reviewed on a regular basis to eliminate deficits in the Activity Fund.

Conclusion - Response accepted.